What's the True Cost of a Critical Business System Outage? And How Will You Tell Your Board?

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A QAD Leadership White Paper for the Global Manufacturing Industry

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THE COST AND CAUSE OF A BUSINESS SYSTEM OUTAGE

To achieve peak performance levels, manufacturers must execute at the critical pace, or drum beat, that today's operations and supply chains demand. Meeting this challenge ensures alignment of your key touchpoints: procurement, production, orders, quality, through to financials. This delivers benefits in customer satisfaction levels, fulfillment rates and profit margins.

All too often the business systems supporting that critical drum beat can be overlooked in a company's plans. Yet even a short unplanned outage of one of these systems can derail the best-run operations, resulting in missed deliveries and lost customers. Longer outages can have devastating effects, ultimately negatively impacting your financial quarter, fiscal year, stock price and reputation.

Suddenly, those in the corner offices are accountable for big problems with roots that took hold outside of their area of direct responsibility. Or so they thought!

Typically, business data systems like ERP are required to be the ever-present engines working in the background 24/7, making them somewhat invisible among many other organizational priorities. Out of sight, out of mind? Decisions to forgo IT investment are often made based on a false confidence that "It ain't broke, so it doesn't need fixing." Spending on other parts of the business, say production line equipment, would be the clear-cut, wiser option, right?

This flawed belief typically starts at the very top. Upper management, unaware of the close ties between its business strategy and key business systems, can fail to allocate the necessary funds to IT departments in favor of perceived higher priorities. If unable to make a compelling business case to management, IT normally takes up the strategy of "keep it alive," foregoing technology upgrades, relying on patches, tuning and workarounds to squeeze more life out of aging infrastructure and software. This is a losing battle, with the eventual toll being paid back at the top of the organization.

Fortunately, there is a better way.

You need to understand, exactly as you do other aspects of the business, your level of risk associated with critical business systems in some detail. That is, how can you know their state of health "under the hood"? What are the likelihood and potential costs of an outage? If an outage did occur, can you really minimize the impact to sales, customer service and brand equity?

The good news: You can, with some fresh insight, greatly reduce risk while improving governance and compliance. The bad news: Unless you are already using best practices, your company will need to change some practices or perhaps change your long-term approach to manufacturing data systems entirely, to ensure they remain effective and support your business goals today and tomorrow.

The first step involves understanding the business strategy, culture and needs of your company.

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STEP ONE: UNDERSTAND YOUR COMPANY'S RISK TOLERANCE

Nearly every manufacturing sector faces enormous change. That means some manufacturers need to evolve quickly just to maintain their existing market position. More risk-taking manufacturers that aim for market leadership make ongoing investments and embrace transformation. There are also manufacturers who have managed to avoid change - their business models remain primarily intact without continuous improvement. Which of the basic three cultural models most accurately describes your company? Slow, medium, or fast? Conservative, moving forward but carefully, or aggressive?

Given your company's culture, how much do you need to invest in IT-related risk mitigation and management to fit the strategy and growth profile of your company? As a business leader responsible for long-term vision, this decision must weigh not only where your company is now but also where it is going. Those few manufacturers convinced that their long established business model will never change in the face of new competition or unforeseen industry disruptions, right or wrong, might get off cheap.

Here is a short cheat sheet to measure your company's tolerance for risk. Does your company care about:

- Improving productivity?
- Taking advantage of new technologies to reduce costs and pursue new opportunities?
- Preventing data loss and reputational risk associated with cybersecurity attacks?
- Business continuity?
- Customer satisfaction?
- Innovating new business models to maintain or improve competitive position?
- Making smart, strategic mergers and acquisitions with excellent execution?

If you answered "no" to all of the above, you are off the hook; you can move this document into the recycle bin, right? Unfortunately, that is the incorrect answer. Even manufacturers with static strategies still depend deeply on critical business systems like ERP. The "Just keeping the lights on" approach fails the moment the lights go out. Nonetheless, understanding your company's speed of innovation and competitive approach acts as a framework for where you should and might go with critical data systems like ERP.

Slower moving manufacturers use ERP for basic record-keeping, reporting and core processes.

Faster moving manufacturers use ERP to help differentiate them in a competitive market. In either case, manufacturers should, if they don't already, acquire an in-depth understanding of what it takes to keep ERP healthy - the elements of ERP health are covered in step two.

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STEP TWO: A SYSTEM MANAGEMENT HEALTH CHECK LIST - MORE THAN MEETS THE EYE

For on-premise ERP, the list of what it takes to keep ERP healthy is lengthy. For cloud ERP, the list is no less lengthy, but the manufacturer lets the cloud ERP provider handle much of the list. One of the reasons that many manufacturers have opted for cloud ERP over the past decade is they realize that the cloud ERP vendor has more in-depth expertise than any other entity about how to run ERP software optimally. Regardless, companies that run ERP on-premise or are considering shifting to the cloud or need a litmus test for their existing cloud ERP vendor(s) can use this list. Please note that the list is not nearly comprehensive. As a guideline to considering ERP health, it merely scratches the surface and cannot take into consideration the unique nature of every manufacturer.

RISK CATEGORY	CRITICAL ISSUES
BUSINESS STRATEGY ALIGNMENT	• Are your existing systems fully aligned with business operations? • Do you have a dedicated team focused on continuous improvement and business transformation? • Do you have a dedicated team focused on assessing and implementing advanced technologies? • Is your business able to quickly scale to adapt to competitive, industry and market changes and disruptions?
OPERATIONS	• How critical are your key IT systems to your business operations? • What is the impact of IT and operations system downtime on your business? • Is your business ISO 27001 certified? • Does your business comply with all relevant technical, legal, regulatory and contractual requirements from your industry, government and customers?
COMPLIANCE	• Is your business ISO 27001 certified? • Does your business comply with all relevant technical, legal, regulatory and contractual requirements from your industry, government and customers? • Do you have or need qualified infrastructure and support operations that meet ISO, FDA and other standards?
RESOURCES	• Do you have resource constraints in any of these areas: Operations, Finance, IT, project management (PMO)? • Are your IT resources and staff dedicated to discovery and implementation of technology for competitive advantages or to support and maintenance? • Does your business require or need continuous geographic and time zone coverage (e.g., for support or development)?
APPLICATIONS	• Have IT projects implementing business system changes delivered the anticipated outcomes? • Is your data backed up and archived on a regular basis in an appropriate way? • Are dev, test and production environments, for application customizations and extensions, etc., supported using SDLC best practices?
SECURITY AND GOVERNANCE	• Does your business use best practices and methods for cybersecurity and disaster recovery? • Have you completed a risk assessment for your business systems (ERP, etc.) in the past five years? • Have you completed or updated a rigorous risk mitigation plan in the past five years? • Is business system risk stated in your business's annual report? • Does your business have a formal, published IT/data security policy? • Has your business provided IT/data security training to all employees?

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STEP THREE: GET A CHECK UP

Unfortunately, the gap between an effective ERP that is ready to adapt to new business requirements and the older "keep the lights on" ERP grows every day. Those manufacturers running ERP without maintenance, locked up in customizations, on near-end-of-life hardware, operating system or database may simply not be aware of how far ERP has come over the last decade, particularly cloud ERP. In the middle are those trying their best; making ERP run as well as possible despite personnel and budgetary restrictions. Even those middle-of-the-roaders are losing ground to their forward-thinking competitors and risk major disruption from new entrants.

Minimally, if your ERP fails unexpectedly, a CEO or CFO will ultimately have the difficult and embarrassing job of explaining it to the board, investors, shareholders and customers. Was the business prepared and did they take necessary precautions? Were risks known, documented and shared with key stakeholders? The CIO's excuse of "It seemed to be working fine" will not suffice.

What should be done? Authorize a complete system management health check. Identify and understand existing risks to the business. Understand how big the gap is between your critical business systems and operations crucial to your current and long-term business strategy. Gather intelligence on the business value of an effective, adaptive ERP versus a barely-alive, legacy ERP.

What is involved? What areas might the health check consider? Take a look at the table below.

ERP SYSTEM HEALTH CHECK	
SCORECARD SECTION	BUSINESS RISK AREA
SECURITY	Disaster Recovery
	Security Control
APPLICATION	Software Currency
	3rd Party Software
	Compatibility
	Functionality
RESOURCES	Criticality of Resources
	System Knowledge and Control
OPERATIONS	Monitoring
	Administrative
	Support
	Documentation
	Maintenance
INFRASTRUCTURE	Backup
	Hardware

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QAD offers its customers a no-cost system health check engagement, tailored to the specific business strategy of each manufacturer. Typically, this engagement uncovers challenges in the following areas:

Resourcing Challenges: Do your people have the skill sets and specialist knowledge needed to support the business? If not, what's needed? If so, how can you retain them? Are your governance and change-management procedures standardized across the organization? Are your coordinating procedures for multiple service partners delivering optimal application availability?

Security Challenges: Is your data secure in the face of rising incidents of breaches and attacks? Does your business fully comply with all industry certifications and customer audit requirements? Do you know the potential costs associated with failure to protect data or honor service level agreements (SLAs)?

Disaster Recovery Challenges: Do you have a disaster recovery plan to minimize business continuity risk? Does your DR plan cover applications as well as infrastructure? Has your DR plan been thoroughly tested?

Having identified potential areas of weakness together, we can prescribe remedies that not only improve the health of your business data systems today but also enable and support your strategies for future growth. QAD's objective is to help you, rapidly, make an objective assessment of where you are with ERP and to help you explore options that will increase your company's success.

To get started, please talk to your QAD account manager or representative today, call +1-805-566-6100 or email info@qad.com.

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